Overview of Changes to Property Tax System in Arizona from Passage of Proposition 117 (Passed fall of 2012)

Proposition 117 was passed by the voters in the fall of 2012 and will be implemented starting with tax year 2015. Proposition 117 does not change the statutory formulas for calculating how much money can be collected by taxing jurisdictions, but does change the method of allocating responsibility for whatever money is collected.

Each year the taxing jurisdictions (county, school district, cities, fire district, etc) determine the amount of money to be raised through property taxes. The amount of money which can be raised for most jurisdictions is capped by statutory formula. A jurisdiction may collect the maximum amount estimated or any amount less than the maximum. Once the amount to be collected is determined, a mechanism must be used to allocate responsibility for this total among all of the properties in the taxing jurisdiction. This is the primary function of the assessed value, i.e. to allocate to each property their percentage of obligation towards the total tax to be collected.

In Arizona, we have two assessed values. The first assessment is called Full Cash Value (FCV) and is a reflection of the market value of the property. Therefore, FCV increases or decreases based on market conditions. The second assessment is called Limited Property Value (LPV); this assessment increases or decreases based on a statutory formula in which LPV can never exceed FCV.

On the tax bill, the FCV is known as the Secondary value and the LPV is known as the Primary value. Prior to Proposition 117, both FCV and LPV were utilized in the calculation of the tax bill. After Proposition 117 is implemented, only the LPV will be utilized in the calculation of the tax bill. FCV will still be calculated since it is used in the formula to calculate LPV, but starting in 2015 the FCV will not be utilized in the tax bill calculation.

Fluctuations in your property tax bill occur from three primary sources. First, taxing jurisdictions increase or decrease the amount of money they want to collect, known as the levy amount. Second, your properties pro rata share towards the total assessment in the jurisdiction is changed. Third, a bond or an override is added or is retired. Let's briefly look at each method of change:

The total amount a taxing jurisdiction collects in property tax is called the levy amount. When a taxing jurisdiction wants to increase or decrease the levy there is a corresponding increase or decrease to your tax bill assuming everything else remains the same. There are statutory limits in place for most taxing jurisdictions on the amount of increase they can impose.

The next potential change comes from fluctuations in a property's assessment. When the assessment is tied to market value, a change in market value means a potential change in the assessment. The purpose of the assessment is not to decide how much money is collected, but to determine your property's position in relationship to other properties in the taxing jurisdiction. This position is represented as a percentage of the total**;** or, the property's pro rata share of the total. The math is simple, you take the assessment of your property and divide it by the total assessment of all the taxable property in the jurisdiction and that number represents your property's percentage or pro rata share of the total. Since different property values increase or decrease depending on market conditions, each property's assessment and the assessments of all the properties in a jurisdiction can also increase or decrease each year. These changes translate into changes in your property's percentage of the total or pro rata share of the total.

The final potential change comes from bonds and overrides being added or retired. For a bond or an override to go into effect, it must be voted on by the citizens who live in the taxing jurisdiction. Historically, bonds and overrides have generally accounted for the biggest single item change on the tax bill.

What Proposition 117 does is move all tax bill calculations to the Limited Property Value (LPV) assessment and reduces the maximum annual growth of LPV to five (5) percent. This is an extension of something which was started in the mid 1990's when LPV was introduced. What it does is limit the impact market changes have on the calculation of your tax bill. When the market sees valuation increases the LPV growth will be limited to a maximum of five (5) percent of the annual growth. When the market sees valuation decreases the LPV will be reduced when valuation drop in FCV exceed the LPV assessments. This has a smoothing effect on market changes. It moves Arizona farther away from a true market based property tax system, but Proposition 117 does not destroy the market concept because LPV is calculated in part from FCV.

This explanation of the property tax system in Arizona and the changes which will take effect from the passage of Proposition 117 is only provided as brief overview. It is not intended to cover all of the nuances of the property tax system in Arizona. For more information on the overall property tax system in Arizona please refer to the Question and Answer page of the Assessors web site http://mcassessor.maricopa.gov/assessor//FaqAll.aspx#PropertyTax